



AUDITOR-GENERAL
SOUTH AFRICA

The Accounting Officer
Sekhukhune District Municipality
Private Bag X8611
GROBLERSDAL
0470

13 March 2014

Reference: 60061REG12/13

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Sekhukhune District Municipality for the year ended 30 June 2013

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential furthermore this audit report is not for the consolidated financial statements.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Molatelo Manaka
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**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE
AND THE COUNCIL ON SEKHUKHUNE DISTRICT MUNICIPALITY**
REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Sekhukhune District Municipality set out on pages xxx to xxx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I identified a number of assets belonging to the municipality that were not included in the accounting records and financial statements. As the municipality did not maintain adequate records for property, plant and equipment, I was not able to determine the full extent of the

understatement in property, plant and equipment stated at R 1 947 713 256 (2012: R1 684 134 101) in the statement of financial position.

7. Section 84(1)(f) of the Municipal Structures Act states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. The municipality did not account for all roads that form an integral part of the network in the accounting records in accordance with Government Gazette 1041 of 2004. I was unable to determine the amount by which roads are understated in the accounting records. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R 1 947 713 256 (2012: R1 684 134 101) in note 6 to the financial statements was necessary.

Non-current provisions

8. Section 84(1)(e) of the Municipal Structures Act states that the district municipality has the powers and function with regards to solid waste disposal. Furthermore, the SA Standards of GRAP, GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*, require that an amount be recognised as a provision for rehabilitation of the landfill site at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The municipality has not accounted for the provision for rehabilitation of the landfill site. I was unable to quantify the extent of the misstatement on provisions of R8 782 941 (2012: R8 599 996) disclosed in note 15 as it was impracticable to do so. Additionally, there is a consequential impact on the property, plant and equipment, surplus for the period and the accumulated surplus.

Revenue

9. The SA Standards of GRAP, GRAP 9, *Revenue from Exchange Transactions*, requires that revenue shall be measured at the fair value of the consideration received or receivable. Revenue from water was transferred by the local municipality to the district municipality in terms of the principal-agent relationship. The revenue recognised was based on estimated water readings for the whole financial year and as a result I am unable to satisfy myself as to the accuracy of revenue of R33 546 772 disclosed in note 16 to the financial statements. Consequently I was also unable to determine the impact on trade and other receivables, trade and other payables and on the commission expense.

Irregular expenditure

10. Management did not provide evidence that they have identified all the irregular expenditure from the prior year. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the prior year irregular expenditure stated at R279 022 272 as disclosed in note 40 to the financial statements.

Expenditure

11. The municipality did not account for expenditure on water and sewerage services amounting to R34 153 654 in its accounting records. Consequently, expenditure is understated by R34 153 654 and the accumulated surplus overstated by the same amount.

Commitments

12. During 2012 I was unable to obtain sufficient audit evidence about commitments of R57 154 483. Consequently, I was unable to determine whether any adjustment to commitments was necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Contingent liability

13. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I am unable to determine whether any adjustments to contingent liability stated at R1 696 323 (2012: R448 414) in the financial statements was necessary.

Qualified opinion

14. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Sekhukhune District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

16. As disclosed in notes 36 and 37 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Sekhukhune district municipality at, and for the year ended, 2012.

Material losses

17. As disclosed in note 49 to the financial statements, material losses to the amount of R4 030 257 were incurred as a result of water and electricity losses.

Irregular expenditure

18. As disclosed in note 40 to the financial statements, the municipality incurred irregular expenditure of R394 865 174 due to non-compliance with laws and regulations.

Fruitless and wasteful expenditure

19. As disclosed in note 39 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R1 112 625 as a result of payment of interest and penalties to suppliers.

Additional matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

21. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
24. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPP)*.

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

25. The material findings are as follows:

Usefulness of information

Measurability

26. The National Treasury's FMPP requires that performance indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 20% of performance indicators for the development priorities on community development and social cohesion, and economic growth, development and job creation were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPP but did not receive the necessary training to enable application of the principles.
27. The National Treasury's FMPP requires that it must be possible to validate the processes and systems that produce the indicator. A total of 34% of the significantly important indicators in relation to the core mandate of the municipality were not verifiable in that valid

processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPi but did not receive the necessary training to enable application of the principles.

Consistency

28. The Municipal Systems Act 2000, (Act No.32 of 2000) (MSA), section 41(c) requires that integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 29% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. This is due to the lack of review of reported performance information by management.

Presentation

Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 50% measures taken to improve performance as disclosed in the annual performance report. The municipality records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Reliability of information

29. The National Treasury FMPPi requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to access to basic services and infrastructure development and community development and social cohesion. This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

Compliance with laws and regulations

30. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Strategic planning and performance management

31. The annual performance report for the year under review does not include each external service provider, a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(a)(b)(c) of the MSA.
32. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statements, performance and annual report

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

34. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by Supply Chain Management (SCM) regulation 17(a) and (c).
35. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
36. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
37. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).
38. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
39. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
40. Awards were made to providers who are persons in service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

41. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
42. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
43. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Asset management

44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

45. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequences Management

46. Irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 102(1) of the MFMA.

INTERNAL CONTROL

47. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

48. The municipality has substantially filled *key* critical vacancies, however there is still a need to capacitate certain functions especially in the area of asset management and ensuring that staff has adequate accounting knowledge.
49. The internal control environment of the municipality is still not satisfactory. Although the accounting officer reviewed the annual financial statements and the annual performance plan prior to their submission for audit, a number of material misstatements were identified.

Financial and performance management

50. The municipal entity did not implement controls over daily and monthly processing and reconciling of transactions.
51. The municipality did not compile and maintain an approved record classification system for paper based and electronic records in order to safeguard these records and facilitate their timely retrieval. As a result, significant delays were experienced in management providing required information.
52. The municipality did not have an adequate system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.

Governance

53. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and monitored.
54. The municipality developed a plan to address internal and external audit findings, however not all prior year issues were fully addressed.
55. The audit committee did not adequately monitor the implementation of prior recommendations and as a result not all prior year issues were adequately resolved.

OTHER REPORTS

Investigations

56. Two investigations relating to alleged SCM irregularities were conducted during the year. The outcome of both investigations confirmed that the supply chain management processes were not complied with. The official who was implicated has subsequently resigned from the entity and the municipal council has escalated the matter to the Provincial Treasury.

Auditor-General

13 March 2014

Polokwane



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence